

Purchase, Rental, Operating Lease, or Lease with Option to Purchase (Capital Lease)

Fixed assets can be acquired by purchase, rental, operating lease, or lease with option to purchase (capital lease). These acquisitions are accounted for as follows:

The purchase of a fixed asset is charged as any other purchase for which title passes on receipt of payment.

The rental of a fixed asset does not increase the assets of the LEA and, therefore, is not charged to a capital expenditure account. Rentals are charged to Object 5600, Rentals, Leases (Operating), and Repairs. Exception: If equipment is rented for a specific capital outlay project (e.g., a tractor for a major landscaping project), the amount paid should be added to that project as a capital expenditure.

The lease of fixed assets (operating lease) is usually for a period of one year or more. Title does not pass to the LEA, and charges are made to Object 5600, Rentals, Leases (Operating), and Repairs.

A lease with option to purchase a fixed asset (capital lease) is charged to the appropriate subclassification under Object 6000, Capital Outlay. See pages 805-1 through 805-3 for further explanation.

Introduction to Accounting for Fixed Assets

Property and equipment of material value are commonly referred to as fixed assets. These include land, buildings, and equipment. *Education Code* Section 35168 and federal funding agencies require LEAs to maintain records that properly account for fixed assets.

Since fixed assets represent one of the largest investments of an LEA, control and accountability are of significant concern. Fixed assets records also serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on fixed assets is important regardless of the size of the LEA.

The accounting system for fixed assets should accomplish the following:

1. Conform with *Education Code* specifications for systems of accounting for fixed assets.
2. Enable the LEA's administrators to account for and control all assets under their care.
3. Assist the site administrator in planning and providing proper equipment for schools by furnishing such data as useful life, location, and condition.
4. Aid LEAs in determining insurable values and in securing insurance appraisals.
5. Aid LEAs in substantiating loss in the event of fire, theft, or other catastrophe.
6. Encourage employees and others to better discharge their responsibilities in the care and use of the LEA's equipment.

Education Code Requirements

The *Education Code* Section 35168 requires LEAs to maintain records that properly account for equipment. If the LEA has established a fixed assets accounting system, then the listing will also be accounted for in the fixed assets account group. Equipment would be included in the fixed assets account group only if the individual items meet the LEA capitalization threshold. See pages 801-2 and 801-3 for further details.

Generally accepted accounting principles require that those fixed assets of a government agency not reported in the proprietary or trust funds are to be reported in a general fixed assets account group. However, once the LEA implements the Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*, the assets will be reported in the statement of net assets as part of the government-wide statements, instead of in the account group. GASB 34 becomes effective in three phases based on the LEAs' total annual revenues. The largest LEAs must implement first for the 2001-02 fiscal year. For more information, please see the CDE Web site at <http://www.cde.ca.gov/fiscal/financial/financial.htm>.

To meet the *Education Code* requirement, the LEA must keep records containing the following information about the item:

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| 1. Description | 5. Date of acquisition |
| 2. Name | 6. Location of use |
| 3. Identification number | 7. Time and mode of disposal |
| 4. Cost | |